



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

January 29, 2013

RETURN RECEIPT REQUESTED

Board of Trustees
North Carolina Humanities Council
122 North Elm Street
Greensboro, NC 27401
Attn: [REDACTED]

Audit Report: OIG-13-03 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Bernard Robinson & Company, which includes the Federal assistance programs administered by the North Carolina Humanities Council (the "Council"), for the year ended October 31, 2011. The independent auditors (IPA) previously furnished a copy of their audit report to the Council and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued an unqualified audit opinion (both GAAP and single audit) with no reportable current year findings.

Our review was limited to an examination of the IPA's audit report. We did not examine the underlying audit documentation to evaluate the adequacy of the audit work performed; rather, the single audit desk review guide, issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), was used to determine whether the audit report meets the core reporting requirements stipulated by OMB Circular A-133. Audit reports determined to be *technically deficient* or *unacceptable* require corrective action.

Due to the significant reporting errors identified below, involving the Schedule of Expenditures of Federal Awards (SEFA), we deem the October 31, 2011 reporting package to be technically deficient.¹ Accordingly, the audit report and the Form SF-SAC (Data Collection Form) must be revised and resubmitted to the Federal Audit Clearinghouse (FAC).

- **Major Program:** The IPA selected CFDA #45.129 as the major program for single audit testing. We identified two errors related to this multi-year grant program.
 - Beginning in FY2011, the Council changed the methodology used to report Federal grant expenditures on the SEFA. In previous years, the related revenue and expenditures were separately tracked and reported as such. However, in FY2011 the Council chose to set expenditures equal to revenues for simplicity sake, making the argument that the "Council uses substantially all of the current year award in any given year." Office of

¹ As defined by the CIGIE desk review guide, a "technically deficient" finding is warranted when the single audit reporting package contains "quality deficiencies that may affect the reliability of the audit report and, which must be corrected in the audit report under review."

Management and Budget (OMB) Circular A-133, Section 205, requires specific identification when reporting Federal award expenditures (i.e. estimates are not permissible).

- Similarly, a variance in excess of \$77,000 exists between the cumulative expenditure amount reported by the Council on the Federal Financial Report² (\$1,654,932) and the SEFA (FY2010 and FY2011 total - \$1,732,249). Since both of these reports were prepared on the accrual basis and cover the same timeframe, the amounts should agree.
- Non-Major Program: Expenditures related to CFDA # 45.168, *We The People* grants, were improperly reported on the SEFA during the FY2007 – FY2011 timeframe. Specifically, the SEFA only reported Federal expenditure activity for these awards during the first year of performance; expenditures incurred during the second year of the grant were excluded. This resulted in significant underreporting of *We The People* expenditures (on the SEFA) during this timeframe approximating \$200,000.

The IPA argues that the omissions relate to a Federal program that was never selected as a major program during the timeframe discussed, therefore this finding does not represent a reportable deficiency with the firm's audit work. Although we agree that non-major programs do not require the same rigorous level of audit work involved with major programs, basic testing of the amounts reported on the SEFA along with auditor knowledge of the client should have identified this systemic reporting deficiency. In accordance with OMB Circular A-133.310(b)(3), the SEFA must provide total Federal awards expended for each individual Federal program administered by the Council during the period covered by the financial statements.

Furthermore, our review of the Final Performance Report related to the most current *We The People* grant issued by NEH (BC-50517-10) indicates that the Council completed all grant work by the end of June 2011, implying that the full grant award was spent as of the end of the fiscal year (October 31, 2011). The FY2011 SEFA does not reflect any Federal expenditures for this CFDA program and the related Temporarily Restricted (TR) Net Asset balance appears to be improperly stated in the audited financials. Assuming the grant funds were fully expended by fiscal year-end, the related TR net asset balance should be zero not \$17,126 (as reported in Footnote 7).

Once the above issues are resolved and corrected, please contact the FAC support staff for assistance (800-253-0696 or govs.fac@census.gov) with the single audit resubmission process since special procedures must be followed.

In a separate matter, we identified one other Federal reporting deficiency that must be corrected in future audit reports as noted below.

- OMB Circular A-133.310(b)(5) states that pass-through entities, to the extent practical, should identify the total amount of funding provided to subrecipients from each Federal program. NEH's Federal/State Partnership grants (CFDA #45.129, "SO" prefix) include specific funding for regrants, which are awarded by the Council to subrecipients on an annual basis. In fact, according to the audited schedule of functional expenses, the

² Amount obtained from the Federal Financial Report associated with grant SO-50379-10 for reporting period ended October 31, 2011. The Council is required to submit this financial report to NEH annually.

Council issued almost \$25,000 in “NEH funded regrants” during the fiscal year ended October 31, 2011. However, we noted that the SEFA lacked any disclosure concerning federally-funded subrecipient awards.

Finally, several other matters were identified that require the attention of Council management and the Board.

1. Timely Submission of Audit Report to the Federal Audit Clearinghouse:

In accordance with OMB Circular A-133.320, a single audit must be completed and successfully submitted to the FAC within the earlier of thirty days after receipt of the signed audit report, or nine months after the auditee’s fiscal year-end. If a grantee does not comply with this standard in either of the previous two years, the organization is precluded from qualifying for “low-risk” status³.

According to the October 31, 2011 *Schedule of Findings and Questioned Costs*, the Council was treated as a low-risk auditee by the IPA. In regards to the upcoming FY2012 audit, the Council no longer qualifies for this low-risk treatment (as defined by the OMB guidance noted above) due to the late submission of the FY2011 reporting package to the FAC. However, we determined that both the FY2010 and FY2011 audits were completed and dated within the nine month timeframe⁴ therefore we will provide the Council with a one-time exemption.

The late submission makes it clear that the Council must implement new controls over this process. To document this process, please provide the OIG with a written corrective action plan regarding the noted deficiency within 30 days of receipt of this letter.

2. Timely Investment Reconciliations and Supervisory Review

The management letter issued by the IPA, in conjunction with the FY2011 audit, includes a comment concerning the lack of timely investment reconciliations and related supervisory review procedures. A breakdown of internal controls/segregation of duties opens the door for potential fraud. In fact, the NEH OIG was recently apprised of an investment fraud case (involving an NEH grantee) that was a result of an unscrupulous employee taking advantage of similar control weaknesses. Accordingly, we want to reiterate the importance of strong internal controls and request management’s assurance that the Council adopted new procedures to address this matter.

Please note that we corresponded with both the IPA and Council management concerning the above issues during the course of our desk review. As part of this process, the restated FY2011 financial statements were drafted and reviewed by the NEH-OIG. We understand that the

³ When an organization qualifies for low-risk status under OMB Circular A-133, the IPA is only required to test Federal programs that encompass at least 25 percent of the total Federal expenditures for the fiscal year. If an organization does not qualify for low-risk status, the IPA must test Federal programs that encompass at least 50 percent of the total Federal expenditures.

⁴ The annual audit reports were completed in a timely fashion by the IPA (month of January); however, the administrative process involved with submitting the single audit package to the FAC broke down resulting in the Desk Review finding.

Letter to the Board of Trustees

January 29, 2013

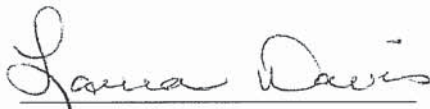
Page 4

Council will submit the revised reporting package to the Federal Audit Clearinghouse before January 31, 2013.

Finally, please note that a copy of this letter will be sent to the audit partner to inform him of the final results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact Mr. Steve Elsberg at (202) 606-8353 or via email at selsberg@neh.gov.

Sincerely,



Laura Davis
Inspector General

Distribution List:

Bernard Robinson & Company, LLP

1501 Highwoods Blvd, Suite 300

Greensboro, NC 27419-9608

Attn: [REDACTED]